



## Australian Higher Education: Actionable strategies for University performance Deloitte point of view



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# Introduction

A number of academic, economic and political factors have now converged to create a cross roads for the Higher Education system requiring an evolution, if not a revolution, in both policy and Institutional strategy. There is intense focus and debate in the policy arena and Higher Education sector on what shape this evolution is taking and should take in the future.

The current government came to power in 2007 promising a long range and far-reaching 'Education Revolution', commissioning numerous high profile consultations and reviews in 2008, including the 2020 Summit, Cutler review of Innovation and Bradley review of Higher Education. Collectively they offer insight into the historical and current challenges facing Higher Education institutions, and the likely policy and environmental trends which will shape their destiny in the future.

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## The Bradley review panel set out a vision for a more competitive and diverse national Higher Education system with sharper focus on quality, performance and access.

The shift towards student centred funding, research compacts, increased private sector participation and performance based funding is clear. While the case for urgent, increased national investment for Universities has been strongly made in the Bradley Review, economic constraints may not enable the funding gap identified to be fully bridged, sharpening the innovation and performance imperative for Institutions.

Overall, Australian Universities face considerable challenges to position for, and achieve, excellence and sustainable competitive advantage in 2009 and beyond. In this environment, standing still is not an option – there is a clear imperative for Universities to make tough choices about where to focus, and how to excel. University leaders must grapple with an integrated Institutional response to some key strategic questions:

- what strategic forces are at work on the sector and how will they impact my operating environment?
- how will my institution make choices on where to compete and how to compete?
- what capabilities will provide my institution with competitive advantage?
- what internal constraints need to be overcome to improve and sustain performance?

This document seeks to make a contribution to the debate, through providing deployable insights around a selection of key areas where many Universities could invest in now to position themselves for competitive advantage in the emerging environment. None of these areas are new to Universities. Our experience has taught us that Australian Universities are by and large, sophisticated enterprises, supporting world class teaching and research operations with leading information technology and management practices. Universities have driven the creation of the third largest export industry in Australia and many commercialization success stories. Rather, we are seeking to highlight areas where innovative strategies, increased rigour and disciplined execution could drive relative advantage for Institutions. While there is no 'one size fits all' formula for success, there are common issues and opportunities facing every University from small Regional Institutions to leading Go8's, and we hope that this perspective drawn from our experience across the sector offers insight and provokes discussion.



# A challenging landscape

Australian Higher Education has undergone a profound change, from a largely public system to a competitive sector exposed to market and economic forces.

Today, Universities face a complex array of political, economic, social and technological challenges which are shaping the future and creating options and opportunities for Institutions.

Whatever the final shape of the Government policy response to the Bradley review, certain common themes are shaping the emerging University environment. While each institution has its unique challenges, some of these themes at work across the sector are set out in the figure below.

In every challenge, there is opportunity. The key question for institutions is what actionable strategies will they take to meet these challenges?

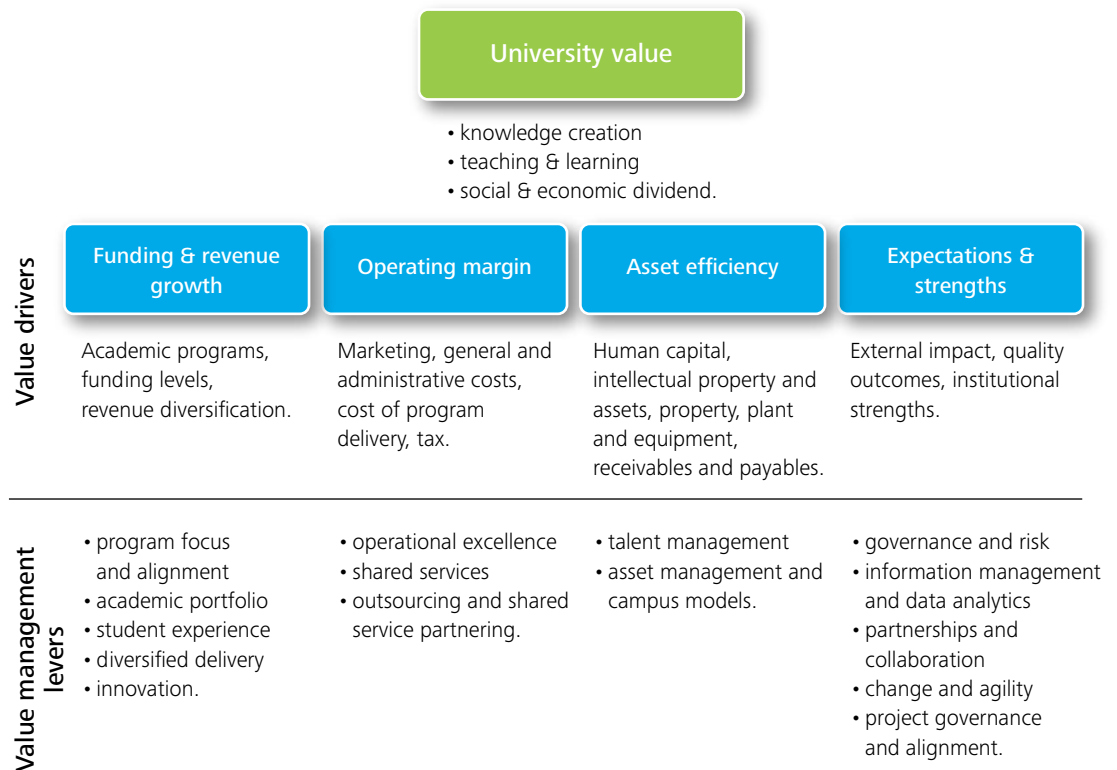


# A framework for University value

Universities have a broader mission encompassing teaching and scholarship, the development and application of new knowledge, and the provision of related social and economic benefits including equitable access, national productivity and community development.

Understanding how Universities create value is fundamental to identifying and developing practical strategies to maximise that value. A 'University Value Map' is a useful framework to visualise and link Institutional capabilities to the four key drivers of sustainable organisational value – Revenue and Funding Growth; Operating Margin; Asset Efficiency and managing Expectations and Strengths.

These drivers of value create both challenges and opportunities – and need to be re-assessed in a holistic manner by each institution to meet the changing environment. The value management levers are areas that would be familiar to all Universities, but where emerging environmental pressures may require more innovative strategies, a re-invigorated effort or a more developed, comprehensive response.



# Growing the revenue base

Funding academic activity through student places and fees, research grants, investments and alternative sources of income is a key focus for University leaders. Relative levels of government funding support have continued to decline over the past two decades, coupled with policy and economic pressures driving the Higher Education system towards diversity and greater specialisation. De-regulation, student diversity, funding directed to 'areas of strength', private sector participation and Asia-Pacific Higher Education development will continue to increase competitive pressure for Universities to grow their revenue base from non-CGS sources.

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**In a more competitive market, organisational capability to make the right strategic choices about where to compete, and how to compete will be critical.**

## **Program focus and alignment**

Competition and diversification will favour institutions which focus on defending and extending relative advantage in strategic areas through specialisation.

Whether a small Institution focusing on a few key areas or a major University with a broad teaching and research portfolio, Universities will need to identify and focus resources on areas of strength where they can develop relative advantage aligned to stakeholder priorities.

- continual assessment of University competitive strengths and the opportunities these create
- development and management of a transparent and clear performance management framework at a sufficiently granular level to understand institutional alignment and avoid 'averaging'
- communication of a robust and ambitious reform agenda with institutional capability to execute in a sustainable manner.

## **Academic portfolio**

While academic programs are not products and students are more than just customers – strategic product and customer management strategies need to be better adapted and applied to support University value.

Strategic decision making can be significantly enhanced through a strong understanding of the financial contribution of programs and student cohorts to University performance through greater data analysis, modeling and reporting. This will enable informed and responsive decision making on the Universities research and academic portfolio mix.

## **Student experience**

With more competition, creating a valuable, interactive and multi-faceted lifelong relationship with students and alumni will become ever more important. Delivering on the University's brand promise and continually improving the student experience requires a strategic, whole of University approach to delivering a consistent, end-to-end student experience across faculty and functional boundaries. This needs to be supported by the technological capability to manage, analyse and communicate interactively with contacts, prospects, students and alumni.

## **Diversified delivery**

The future for many Universities will see a continued migration away from a traditional school leaver undergraduate mix, and the rise of diversified delivery models, enabled by e-learning technology. E-learning has matured into a core element of the learning mix. A strategic approach to diversified delivery, content aggregation and distribution and a move away from the core campus model can represent a significant potential competitive edge. Improved specialist capability around mobile and virtual content delivery will enable better servicing emerging markets such as work integrated tertiary education, and dispersed constituencies such as regional or international markets.

## Innovation

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Universities are engines of the innovation system, hubs of expertise and intellectual property, but are often challenged as to how to drive strategic value through innovation, beyond typical commercialisation activity.

Innovation needs to be viewed through a wider lens – where University staff and stakeholders are engaged and motivated to generate new ideas and executing on those ideas to create new value beyond the traditional commercialisation boundaries.

For innovation to deliver sustainable value, institutions must develop structured but flexible organisational capability through the adoption of the following principles:

- drive and capability to generate, aggregate and filter ideas from academics and professional staff (and wider networks), aligned to the University mission, for the benefit of the Institution and its stakeholders
- flow ideas effectively and collaboratively within the institution and into the wider productivity system where an open innovation approach can drive academic collaboration, granting and licensing revenue benefits
- develop genuine Institutional commitment and execution capability to commercialise high potential ideas where the University has a clear relative advantage and capability, whether in partnership with the private sector or alone.





# Improving operating margins

In many cases, the share of University revenue spent on administration and capital works compared to core academic business has increased substantially in recent years. There are clear drivers behind this trend – managing the internal and external demands on the large and complex organisations which Universities have become, has become an increasingly difficult task.

Re-directing administrative expenditure to core academic functions has become a top priority for Universities and Government. Increased de-regulation, competition and a sharper focus on quality and performance bring with them ever greater pressures on operational excellence and the ability to maximise investment in areas of academic strength. There are undeniable efficiency gains to be found across the sector.

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**In an environment which will likely remain revenue constrained, Institutions able to most effectively ‘add muscle’ in their non-academic activities will find themselves at a significant advantage.**

## **Operational excellence**

Despite the adoption of private sector practices and sophisticated IT systems, efficiencies are often constrained by factors including the lack of a collaborative culture, devolved structures creating duplication across the Centre/Faculties and Schools, insufficient focus on cost management, inadequate staff skills, sub-optimal use of facilities, lack of a performance culture and lack of scale within individual functions.

These constraints can lead to common issues including fragmented governance, over-complex processes, multiple data sets, duplication of effort, manual information management, non-compliance and uneven staff skill levels.

## **Shared services**

There is considerable scope for efficiency gains through whole of University non-academic services reform through standardisation, consolidation and technology enabled process re-engineering. These efficiencies are often not ‘easy wins’, but can be achieved through firm executive leadership, effective consultation and ongoing vigilance to track, preserve and continuously improve benefits. Typical functions to consider include Finance, Procurement, IT, Student Services, Research Administration, Human Resources and International Partnerships.

This requires a commitment to consolidate and streamline the institution; setting and delivering on stretch targets to reduce administrative expenditure on duplicated or redundant activity and re-directing those savings towards teaching and research.

## **Outsourcing and shared service partnering**

While some Universities have adopted internal shared service strategies, the efficiency benefits that can be extracted may be limited by the nature of managing support functions within the University and lack of scale within single institutions.

Two cost reduction strategies which can further build on the shared services foundation, but have not been as widely adopted – are outsourcing, and shared service partnering.

- outsourcing low value, high volume activities is a proven element of cost reduction strategy which could drive significant value for Australian Universities. For Universities, outsourcing could potentially achieve efficiencies across transactional elements in support functions such as accounts payable/receivable, payroll, procurement, recruitment, enquiry and alumni management, contact centre, IT helpdesk & infrastructure support, research information management, business process improvement and student administration
- the idea of ‘joint venture’ or outsourced shared services hubs supporting multiple Universities deliver transactional processes is powerful. While such collaboration would be challenging, a well constructed joint venture strategy with organisational commitment, strong execution capability and partnerships could make this concept a reality.

# Effective asset management

Universities are asset intensive organisations – whether they be physical assets such as large campuses occupying prime real estate, investment portfolios, research and information technology plant and equipment; or intellectual property and human capital assets. The planning, management and utilisation of the asset base offer significant opportunities for value creation within the context of the University mission.

## Talent management

The Bradley review considers academic staff shortages as the ‘the single biggest issue confronting the sector over the next decade’. The review cites four major drivers of the academic shortfall; the aging academic workforce, casualisation reducing attractiveness of an academic career (particularly early career academics), working conditions (particularly salary levels), and intensifying global competition for high-quality academics.

Modelling the current and future state workforce and workload at a granular level to identify gaps and enable innovative and effective intervention strategies is the first priority. To reduce and fill gaps, Universities will be seeking to enhance their value proposition to current and prospective employees.

For Institutions, superior human capital management capabilities and a well constructed talent management framework (such as learning and development; performance development; rewards and recognition) will be a key strategic advantage.

By improving the sophistication of retention and development programs, Universities can better equip themselves to attract and retain talent and achieve heightened levels of performance.

## Asset management and campus models

The development of a compelling and well supported asset/infrastructure plan, aligned to student and community priorities, will provide strategic advantage to Universities in the future.

Within that plan, Universities can examine three asset strategies which complement the traditional campus owner-operator model:

- a. for some Universities, reducing dependence on the core campus footprint offers a sustainable advantage, circumventing capacity constraints, reducing costs and enabling focus on core capabilities rather than asset management and support. This may be achieved through a strategic approach to diversified delivery through e-learning and mobile teaching delivery, supported by de-centralised commercial leasing
- b. responsible gearing (mortgaging) of existing assets to fund capital investment is a strategy which some Universities have embraced, but to which some remain averse. Underperforming University balance sheets can be ‘put to work’ to fund long term sustainable advantage within risk parameters
- c. public-private partnerships (PPPs) are a mechanism which enables the University to partner with a private provider to invest in assets and infrastructure. A well structured PPP enables the University to bring forward asset construction and spread the investment over the lifetime of the asset through management and service fees. Risk from a lack of ‘in-house’ experience and capability is offset. Depending on the model employed, the University can outsource the maintenance and operations of the asset to the private provider at a relative cost advantage. A successful PPP relationship requires a robust procurement process informed by a strong understanding of transaction cost-benefit, followed by ongoing contract management.

# Expectations and strengths

Universities have a complex array of stakeholders, from students and alumni, to federal and state governments, public agencies, quality assurance and granting agencies, collaborative partners in business, public sector and academia, to the communities they serve and the broader national and human economy and society.

Performing against the increasing expectations of these stakeholders, delivering outcomes and impact, is an enormously significant University value driver. The Bradley review recommends a new national regime to substantially strengthen the general regulatory, accreditation and quality assurance systems operating in the sector. Supporting the delivery of these outcomes are fundamental 'enabling strengths' which need to be embedded in the fabric of the organisation.

## **Governance and risk**

Managing strategic change and the enhanced regulatory, regulatory, accreditation and quality assurance regime outlined by Bradley will require strong oversight from the highest levels of the University, balanced with the agility to seize new opportunities.

University Governance bodies and risk leaders must lift their capability to act as both steward and operator, strategist and catalyst. The disciplines of effective risk management have never been more important to informing and supporting sustainable success.

Increasing scale and complexity of University operations, demands for transparency and accountability from stakeholders, and financial and performance pressures have also enhanced the requirements on Councils in overseeing an effective governance framework. Councils will need to be able to rely on the quality of information to ensure external reporting obligations are met, and strategic and operational objectives are on track. Ensuring that Council processes, memberships and sub-committees (such as audit and risk) are appropriately structured and comprise of membership with the right mix of skill sets will be paramount.

Within the University, the risk management function needs to be a strategic partner to the University, delivering a robust, agile and responsive service to manage a changing risk profile and emerging risks. Risk management will need to shift its mindset and capabilities from the management of operational and compliance risks, which are typically un-rewarded, to the management of more strategic, rewarded risks and

opportunities. Risk leaders in Universities must act as a value adding partner to faculties and support units in innovation, as well as building oversight across the University so that decisions are informed by a balanced picture of the risks and opportunities of acting... and of failing to act.

## **Information management and data analytics**

Demands on education providers for information – from government, partners, students or for internal stakeholders - have never been greater or more diverse, nor the imperative for a competitive edge more intense. However, systems and processes have often not kept up with this demand – with inconsistent and often inaccessible data housed in disparate systems, creating multiple 'versions of the truth'.

Generating, storing, and retrieving information required at the right time and for the right requirements can be a difficult and labour-intensive task.

Harnessing both internal information, and providing tools for consolidating this internal data with external drivers leads to effective modelling and planning for future growth and provision of services, which can be critical in an increasingly competitive and cost-conscious education sector.

An effective enterprise information management strategy and platform will become a prerequisite to managing University performance in the future.

## **Partnerships and collaboration**

The agenda to 'blur the boundaries' within the tertiary education system through demand based funding, improved pathways for students and lowering regulatory barriers, within a robust quality framework is clear.

Universities can improve outcomes and reduce costs through a more strategic approach to effective collaboration across their extended communities

This collaboration may incorporate and build on recruitment activities which many Universities undertake today with feeder schools, international universities and TAFEs. Areas for deeper collaboration include academic endeavour in terms of co-operative research, curriculum development and e-learning, with the potential for vertical or horizontal University alliances to realise significant economies and improved recruitment/ development pathways.

In non-academic functions, economies of scale could be accrued through structural collaboration around information systems and shared services, consulting, physical assets, alumni and advancement, resources and expertise.

### Change and agility

With greater competition and diversity within the Higher Education sector, standing still is not an option. The frequency, scale and urgency of major change will continue to increase.

Universities will need to be more “change ready” and agile than ever before. University leadership will not be able to execute on strategic choices without an effective capability to manage change. The challenge is that the ‘collegiate’ character of the University can be at odds with the ‘managerial’. An effective approach to directed, timely and efficient organisational change can clash with devolved structures and a culture of academic freedom, debate and consensus driven decision making. This tension can create barriers to change if not effectively managed.

The outcome? Siloed decision making; an ‘Us versus Them’ culture; Budget overruns; And performance that falls short of expectations. A strategic and planned approach to manage change will minimise resistance to change and result in better outcomes and faster benefits realisation for the Institution.

Key change strategies include:

- effective and visible change leadership from the top
- active support and involvement from key stakeholders throughout the organisation
- clear definitions for how decisions will be made and who will make them
- adequate funding to provide the required resources and demonstrate a long-term commitment to reform
- high quality talent from the organisation dedicated to the reform initiative.

### Project governance and alignment

An integrated view of the project portfolio enables the Institution to analyse and improve returns on the investment of scarce ‘discretionary’ resources.

The University’s project ‘portfolio’ consists of all Institutional initiatives with discrete objectives and defined lifecycles, as opposed to recurrent or operational activity. The resources aligned to these initiatives, at all levels of the University, can often represent a significant proportion of annual resource allocation. They might include such critical initiatives as research projects, capital works, ICT implementations, new program development or business improvement projects.

Devolved University planning environments and siloed budgeting approaches can mean that Universities do not apply rigour with regards to how the resources deployed in projects across the institution are aligned to the University’s strategic objectives.

Typical issues arising from a lack of this view include project objectives and scope duplicated across the Institution, insufficient integration between dependent and overlapping initiatives, and planned and actual contribution to University objectives is either unassessed or unclear.

Effectively implemented, appropriate project and program management supports performance and manages risk, without stifling innovation.

A ‘whole of University’ project approval and control framework, common methodology and integrated project management systems and reporting, along with project management expertise and skills development are important elements in ensuring high quality outcomes.

# Conclusion

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## With every challenge, there is opportunity.

The future of greater diversity and specialisation in Australian Higher Education is already upon us, and the Bradley review signals that it will sharpen and intensify in coming years. While the pace of change will differ, all Universities will respond to opportunities and make strategic choices towards an evolutionary path. Differing University models, configurations and capabilities will evolve to create greater value in response to these opportunities.

The wave of reform signalled by the current government will take years to have effect, but it is the strategic choices which Universities make today which dictate how they will be positioned in the future environment.



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